

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3
(November 1, 2012)

The Postal Service hereby files its responses to questions 1 through 5 of Chairman's Information Request No. 3, issued on October 24, 2012. Each question is stated verbatim, and followed by the Postal Service's response.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

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November 1, 2012

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1. For the discounts between nonmachinable ADC letters and nonmachinable mixed ADC letters, nonmachinable 3-digit letters and nonmachinable ADC letters, nonmachinable 5-digit letters and nonmachinable 3-digits letters, and automation 3-digit flats and automation ADC flats, the Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(B) as justification for those passthroughs exceeding 100 percent.
 - a. Please explain how this exception applies to these discounts. Provide qualitative description and/or quantitative analysis (e.g., economic damage or disruption to business plans) to support use of this exception
 - b. For each of these discounts, please provide a schedule for phasing out the amount of discount above the avoided costs.

RESPONSE:

a. Nonautomation ADC Nonmachinable Letters

As shown in Table 1 below, the Postal Service aligned the discount with avoided costs in Docket No. R2012-3. However, since the last price adjustment, the avoided cost has decreased from 9.7 cents to 7.9 cents. In response, the Postal Service has decreased the discount to 9.5 cents in the current price adjustment. The Postal Service believes that decreasing the discount even further in this docket would result in rate shock for Nonautomation ADC Nonmachinable Letters.¹ Aligning the discount to avoided costs in this price adjustment would increase prices by as much as 9.2 percent.

¹ See 39 U.S.C. § 3622(e)(2)(B).

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Table 1: History of Passthroughs-Nonautomation ADC Nonmachinable Letters

			Year-end Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
1	ACD 2009	Nonautomation ADC Nonmachinable Letters	8.7	11.2	77.7%
2	ACD 2010	Nonautomation ADC Nonmachinable Letters	8.7	11.1	78.4%
3	R2011-2	Nonautomation ADC Nonmachinable Letters	9.4	11.1	84.7%
4	R2012-3	Nonautomation ADC Nonmachinable Letters	9.7	9.7	100.0%
5	ACD 2011	Nonautomation ADC Nonmachinable Letters	9.4	7.9	119.0%
6	R2013-1	Nonautomation ADC Nonmachinable Letters	9.5	7.9	120.3%

Sources:

1. Annual Compliance Determination 2009, pg. 91
2. Annual Compliance Determination 2010, pg. 111
3. R2011-2 STD Worksharing.xls, tab "Standard Mail Letters"
4. Annual Compliance Determination 2011, pg. 124
5. Attachment B Workshare_Final.xls R2013-1, tab "Standard Mail Letters"

Nonautomation 3-Digit Nonmachinable Letters

Since FY 2008, the passthrough for Nonautomation 3-Digit Nonmachinable Letters has generally remained above 100 percent due to the volatility in avoided costs. Nevertheless, as shown in Table 2 below, the Postal Service has made steady progress in reducing the passthrough from its peak of 258.8 percent in FY 2009. The Postal Service believes that decreasing the discount even further in this docket would result in rate shock for Nonautomation 3-Digit Nonmachinable Letters.² Aligning the discount to avoided costs in this price adjustment would increase prices by as much as 11.7 percent.

² *Id.*

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Table 2: History of Passthroughs-Nonautomation 3-Digit Nonmachinable Letters

		Year-end Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
1	ACD 2009 Nonautomation 3-Digit Nonmachinable Letters	4.4	2.6	169.2%
2	ACD 2010 Nonautomation 3-Digit Nonmachinable Letters	4.4	1.7	258.8%
3	R2011-2 Nonautomation 3-Digit Nonmachinable Letters	3.8	1.7	223.5%
4	R2012-3 Nonautomation 3-Digit Nonmachinable Letters	3.9	3.9	100.0%
5	ACD 2011 Nonautomation 3-Digit Nonmachinable Letters	3.8	2.5	152.0%
6	R2013-1 Nonautomation 3-Digit Nonmachinable Letters	3.4	2.5	136.0%

Sources:

1. Annual Compliance Determination 2009, pg. 91
2. Annual Compliance Determination 2010, pg. 111
3. R2011-2 STD Worksharing.xls, tab "Standard Mail Letters"
4. Annual Compliance Determination 2011, pg. 124
5. Attachment B Workshare_Final.xls R2013-1, tab "Standard Mail Letters"

Nonautomation 5-Digit Nonmachinable Letters

As shown in Table 3 below, the Postal Service reduced this passthrough to under 100 percent in Docket Nos. R2011-2 and R2012-3. However, since the last price adjustment, the cost avoidance has dropped from 9.6 cents to 7.6 cents. If this discount was aligned to equal avoided costs in this docket, the price increase for Nonautomation 5-Digit Nonmachinable Letters would be as large as 18.1 percent. The Postal Service believes that such an increase would result in rate shock.³

³ *Id.*

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Table 3: History of Passthroughs-Nonautomation 5-Digit Nonmachinable Letters

		Year-end Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
1	ACD 2009 Nonautomation 5-Digit Nonmachinable Letters	11.7	11.5	101.7%
2	ACD 2010 Nonautomation 5-Digit Nonmachinable Letters	11.7	10.5	111.4%
3	R2011-2 Nonautomation 5-Digit Nonmachinable Letters	9.3	10.5	88.6%
4	R2012-3 Nonautomation 5-Digit Nonmachinable Letters	9.3	9.6	96.9%
5	ACD 2011 Nonautomation 5-Digit Nonmachinable Letters	9.3	7.6	122.4%
6	R2013-1 Nonautomation 5-Digit Nonmachinable Letters	9.5	7.6	125.0%

Sources:

1. Annual Compliance Determination 2009, pg. 91
2. Annual Compliance Determination 2010, pg. 111
3. R2011-2 STD Worksharing.xls, tab "Standard Mail Letters"
4. Annual Compliance Determination 2011, pg. 124
5. Attachment B Workshare_Final.xls R2013-1, tab "Standard Mail Letters"

Automation 3-Digit Flats

The Postal Service did align this discount with the avoided costs. Due to a printing error on page 124 of the Commission's FY 2011 ACD, the Postal Service inadvertently included 4.6 as the avoided cost for Automation 3-Digit Flats on page 8 of Attachment B to its Notice of Market Dominant Price Adjustment (Notice). However, as reflected in the Commission's workpapers, the avoided cost is 5.0 cents. The Postal Service aligned the discount to this avoided cost calculation. Errata to page 8 of Attachment B to the Notice, will be filed.

In PRC-ACR2011-LR-3-FY2011, spreadsheet *Flats MP.xlsx*, tab "CRA ADJ UNIT COST", the adjusted mail processing unit cost for auto ADC flats is 39.171 cents (cell G46). The adjusted mail processing unit cost for auto 3-Digit

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flats is 34.128 cents (cell G48). Based on these two numbers, the avoided cost for Automation 3-Digit Flats is 5.0 cents.

- b. Due to unpredictable fluctuations in inflation (CPI), the value of cost avoidances, and volume changes for each product, it is not practical for the Postal Service to set a schedule for reducing each passthrough to 100 percent. However, as can be seen in Tables 1 through 3 above, the Postal Service has been mindful of the need to align each discount with avoided costs. Such attention can be expected to continue.

Moreover, the Postal Service is aware of the Commission's FY 2011 Annual Compliance Determination (ACD) order to "align the discounts with avoided costs" for nonautomation nonmachinable letters.⁴ The Postal Service will continue to work toward bringing the passthroughs to 100 percent. However, for the reasons described in response to question 1(a) of this information request, the Postal Service has not been able to fully align each discount with avoided costs in this price adjustment.

⁴ Docket No. ACR 2011, *Annual Compliance Determination for Fiscal Year 2011*, at 123 (March 28, 2012).

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2. Please refer to proposed MCS language for Picture Permit Promotion on pages 14, 32, 39, and 49 of Attachment A. Please confirm that First-Class Mail Flats, commercial and nonprofit Standard Mail Flats, commercial and nonprofit Standard Mail Carrier Route Flats, and commercial and nonprofit Standard Mail High Density and Saturation Mail Flats are eligible for the Picture Permit Promotion. If confirmed, please provide updated MCS language for the picture Permit Promotion on pages 14, 32, 39, and 49 of Attachment A. If not confirmed, please revise the "Eligible Mail Classes" section on page 10 of Attachment D to be consistent with the proposed MCS language.

RESPONSE:

Confirmed. First-Class Mail Flats, commercial and nonprofit Standard Mail Flats, commercial and nonprofit Standard Mail Carrier Route Flats, and commercial and nonprofit Standard Mail High Density and Saturation Mail Flats are eligible for the Picture Permit Promotion. Errata to pages 14, 32, 39, and 49 of Attachment A, will be filed.

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3. Attachment D, page 5 of the Notice identifies Standard Mail Regular and Nonprofit Marketing Parcels as the "Eligible Mail Classes" for the Product Samples Promotion. Attachment A, page 39 of the Notice, lists the Samples Promotion under Carrier Route. Please explain if Carrier Route parcels are eligible for the promotion, and revise Attachment A or Attachment D accordingly.

RESPONSE:

The Product Samples promotion applies to Commercial and Nonprofit Carrier Route, High Density and Saturation, and Marketing Parcels pieces that meet the promotion requirements. The phrase "Standard Mail Regular and Nonprofit Marketing Parcels" is an internal phrase used to refer to parcel products that are typically used by mailers to send product samples. Errata to Attachment A, pages 32, 39, and 53, and to Attachment D, page 5, will be filed.

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4. Please refer to USPS-LR-R2013-1/2, Excel file: *Mail to Mobile Promotions-STD-R2013.xls*, tabs: Revenue Forgone Comm LFP, Revenue Forgone NP LFP, Revenue Forgone Comm HD SAT CR, and Revenue Forgone NP HD SAT CR. Please confirm the Revenue forgone excludes the revenue forgone from pound-rated pounds. If confirmed, please provide the rationale for excluding the forgone revenue from pound-rated pounds and provide updated workpapers accordingly. If not confirmed, please explain.

RESPONSE:

Confirmed. The revenue from pound-rated-pounds was inadvertently excluded. When the denominator is fixed, the resulting overall increase for Standard Mail is 2.541 percent. This error does not impact the proposed prices. Errata to USPS-LR-R2013-1/2, will be filed.

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5. The Postal Service provides a list of classification changes on page 53 of its request. Included in these changes is "eliminate classification and fee for Periodicals Additional Entries."
- a. Please confirm that this change relates to DMM section 230. If not confirmed, please specify the DMM section.
 - b. Please confirm that the fees collected pursuant to this regulation are not included in the Price Cap calculations. If not confirmed, please specify the sheet and cell where the fees are included.
 - c. How will the elimination of this entry requirement impact Periodicals mailers?
 - d. Will Periodicals mailers be able to enter mail at multiple Post Offices without paying an additional fee?

RESPONSE:

- a. Not Confirmed. This change relates to DMM section 707.30.
- b. Not Confirmed. This fee is a Special Service fee and is included in the Price Cap Calculation for Special Services. See MCS § 1505.2 (Notice of Market-Dominant Price Adjustment, Attachment A, page 80). The specific information for the fee is included in USPS-LR-R2013-1/5, tab "Per Mailing App" (cells F12:L12). For Cap Calculation purposes, the elimination of the fee is reflected in USPS-LR-R2013-1/5, tab "Change Calc" (cells C27:F27).
- c. It will reduce both the administrative burden periodicals mailers face and the cost of entering mailings at multiple locations.
- d. Yes.